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SUBJECT: PERU LNG'S AGRICULTURAL CSR PROJECTS

Summary

1. As the largest foreign investment in Peruvian history, the Peru LNG project has drawn significant amount of attention, particularly to the potential social and environmental impacts. Peru LNG has begun introducing the social responsibility components of the project, including a small agricultural and institutional capacity building project in two coastal communities. Project mechanisms and objectives are consistent with Government of Peru agricultural strategy. End Summary.

Background: the Peru LNG Project

2. Final approval of financing for the Peru LNG project was obtained in December 2007 - January 2008. At \$3.8 billion, including financing costs, the project represents the largest direct foreign investment ever made in Peru. The funding includes \$450 million from the U.S. Ex-Im Bank, \$400 million from the IDB, and \$300 million from the World Bank/IFC. These are the largest private sector loans in IDB and World Bank history. The project involves the construction and operation of a gas liquefaction plant and export facility (marine terminal and breakwater) on the Peruvian coast, 169 km south of Lima; and a 408 km pipeline that will connect with the existing Camisea pipeline at the Chiquintirca community in the Ayacucho Region of the Andes and stretch to the LNG Plant on the coast. Peru LNG is majority owned and operated by Hunt Oil (USA). As of June 2008, the plant was about 47% complete and the pipeline was about 10% complete.

3. The Peru LNG project advances significant policy priorities for the USG in terms of development, investment promotion, and energy security. According to the IDB, this level of investment will add an average of approximately 0.4% to Peru's GDP per year over the 2006-2010 construction period, and is expected to contribute to GDP growth by as much as 0.5% per year during the operational life of the project (2011-2028). A large share of the imports for the construction of the project comes from the United States. The project is expected to generate roughly \$1.4 billion of hard currency export revenues annually, increasing Peru's total exports by 4.2%. The GOP will receive an estimated \$200 million per year

from taxes and incremental royalties as a result of the Peru LNG project, totaling about \$4.0 billion over the 18-year life of the project. These royalties will be distributed throughout the country to central, regional and local governments through the "gas canon." Approximately 3,000 new direct jobs and 7,000 indirect jobs will be generated during the construction phase.

Social Responsibility

¶4. The Peru LNG consortium has a community/social and environmental investment budget of \$9.1 million, apart from the direct payments made to communities along the pipeline for the right of way. For one of its social responsibility projects with the impacted communities, Peru LNG has contracted with "El Centro de Investigacion, Educacion y Desarrollo" (CIED) to implement a project in the Canete and Chincha municipal areas (near the LNG plant construction site). (Note: The Canete-Chincha region was severely impacted by the earthquake of August 2007 and recovery has been slow; widespread devastation is still evident almost ten months after the disaster. End Note.) CIED is a Peruvian NGO, founded in 1973, with expertise in sustainable rural development. Representatives from the Embassy's Office of Agricultural Affairs (FAS) were invited by Peru LNG to attend the rollout of CIED's project in May.

¶5. The Peru LNG-funded social responsibility project, called AgroProgreso, is based on an analysis of the potential for agriculture development in the region and an identification of the major constraints. The three year project will be implemented in the districts of San Vicente in Canete and Grocio Prado and Sunampe in Chincha, with 300 small farm families as direct beneficiaries. It is anticipated that all agricultural producers in the areas will be indirect beneficiaries as a result of the institutional capacity building efforts and infrastructure investments. The total budget for the AgroProgreso project is \$800,000 with \$640,000 coming from Peru LNG and the rest from local resources (mostly payment in kind).

¶6. The project has both technical and political elements. The technical dimension is oriented to small producers with training and technical assistance to further develop a competitive agriculture with products for the local, regional, and international markets. The political dimension is focused on broader local economic development issues with capacity building for local government and business leaders.

¶7. The technical component will support the creation of farmers' associations with participants required to meet identified criteria including owning less than 10 hectares of land, having access to water and basic infrastructure, a minimum level of education and a commitment to working in a group. Associations will be provided technical assistance in good agricultural practices; business and marketing skills; how to access credit; and improving the overall quality and quantity of products.

¶8. The political component will support the development of a "public-private platform" for promoting the economic development of the regions, including the creation of a business promotion office within the local government structure. Training will be provided to local government and business leaders on creating incentives for small businesses development. Training will also be provided on how to develop a strategic plan for preventing natural, economic, and social disasters, as well as on obtaining and managing reconstruction funds.

Comment

¶9. The objectives of the project are not overly ambitious in terms of numbers or development ideas. They rely on existing marketing channels and proven concepts. The activities are consistent with the overall agricultural development strategy of the GOP and the Ministry of Agriculture, including the focus on organizing farmers into associations. The AgroProgreso project has the advantage of guaranteed funding from Peru LNG and the pressure to be successful in generating benefits for the local communities.

¶10. Peru LNG has requested information from the Embassy's Office on Agriculture Affairs (FAS) on our support and working relations with the Ministry and PL 480 funded agriculture development projects, particularly in the Southern Highlands of Peru. USDA and USAID have a long history of support and cooperation in agriculture which Peru LNG wishes to tap into. We are ready to cooperate and coordinate to increase the chances of AgroProgreso success.